

AR54

1975 Annual Report



ALBERTA NATURAL GAS COMPANY LTD

ALBERTA NATURAL GAS COMPANY LTD

240-4th AVENUE S.W., CALGARY, ALBERTA T2P 0H5

Directors

S. M. Blair, *Bolton, Ontario*
Company Director

H. Booth, *Calgary, Alberta*
President and Chief Executive Officer,
Alberta and Southern Gas Co. Ltd.

R. W. Brooks, *San Francisco, California*
President, Pacific Gas Transmission Company

D. R. Fenton, *Calgary, Alberta*
Senior Vice-President,
Alberta and Southern Gas Co. Ltd.

R. H. Gerdes, *San Francisco, California*
Chairman of the Executive Committee,
Pacific Gas and Electric Company

R. A. MacKimmie, *Q.C., Calgary, Alberta*
Partner, MacKimmie Matthews

C. O. Nickle, *Calgary, Alberta*
President, Conventures Limited

R. H. Peterson, *San Francisco, California*
Vice-Chairman of the Board,
Pacific Gas and Electric Company

S. L. Sibley, *San Francisco, California*
Chairman of the Board and Chief Executive Officer,
Pacific Gas and Electric Company

Officers

R. A. MacKimmie, *Chairman of the Board*

H. Booth, *President and Chief Executive Officer*

D. R. Fenton, *Senior Vice-President*

J. E. Goudie, *Vice-President and Treasurer*

G. D. Barnes, *Vice-President, Operations*

G. W. Sinclair, *Vice-President, Engineering and Construction*

F. G. Homer, *Secretary*

H. B. Sanderson, *Assistant Treasurer*

Auditors

Deloitte, Haskins & Sells,
Chartered Accountants, Calgary, Alberta

Transfer Agent and Registrar

(Capital Stock and 8½% First Mortgage Pipe Line Bonds, Series C)
Montreal Trust Company,
Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver
Notice of change of address should be sent to the Transfer Agent.

Common Shares Listed

Alberta, Toronto, Montreal and Vancouver Stock Exchanges

Financial Highlights

	1975	1974
Operating revenue	\$41,063,000	\$30,940,000
Net income	4,563,000	3,456,000
Income per average outstanding common share	3.83	2.90
Dividends paid per common share — annual rate	1.50(1)	1.10
Common equity — total at year-end ...	25,725,000	22,832,000
— per share	21.57	19.14
Construction expenditures	946,000	314,000

Note: (1) Effective June, 1975

Annual Meeting

The Annual Meeting of Shareholders will be held at the Calgary Inn, Calgary, Alberta on Friday, the 30th day of April, 1976, at 9:30 a.m.

The notice of meeting and proxy form are being mailed with this report to all shareholders of record.

*View of existing pipeline right-of-way showing regrowth of
grasses, bushes and small trees.*



To Our Shareholders

Financial

For the year 1975, net income of the company was \$4,563,000, which is equal to \$3.83 per common share outstanding. In comparison, 1974 net income was \$3,456,000 and earnings per share were \$2.90.

The increase in earnings per share in 1975 is principally attributable to your company's participation in natural gas liquids extraction operations. For the second successive year, cumulative net proceeds from the sale of the liquids after fractionation exceeded costs, resulting in a significant addition to the company's earnings. The improved per share earnings are also attributable to a number of other factors, including a gain on the redemption of Series C Bonds for sinking fund purposes and an increase in income from the investment of surplus cash not required for additional plant facilities. In addition, 1975 earnings reflect the increase in rate of return on gas transmission facilities, to 9½% per annum from 9%, which became effective January 1, 1975.

Effective with the June 30, 1975 dividend payment, the quarterly dividend paid was increased 36%, from 27½¢ to 37½¢ per common share.

Gas Pipeline and System Operations

Deliveries of gas for export at the international boundary at Kingsgate, British Columbia on behalf of Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited averaged 1,179 million cubic feet per day. 1974 throughput volumes were abnormally low because of production difficulties experienced by a number of gas producers and 1975 throughput volumes compare favorably with those of prior years. Deliveries of gas for distribution in the East Kootenay area of British Columbia averaged 19 million cubic feet per day in 1975.

Deliveries of gas from the Alberta Natural system to Inland Natural Gas Co. Ltd., in British Columbia, commenced in November, 1975. These deliveries are made under the terms of an exchange agreement by Alberta and Southern with Inland at the new East Kootenay Exchange Meter Station near Yahk, British Columbia. At this station, the flow of gas is measured and controlled by means of a digital computer, the first

application of direct computer control in the Alberta Natural pipeline system.

Additions and modifications to the pipeline system in 1975 resulted in capital expenditures of \$499,000.

Liquids Extraction

Production of natural gas liquids at the Cochrane extraction plant averaged 13,900 barrels per day during 1975 compared to an average daily production of 13,300 barrels during 1974. These liquids, after subsequent fractionation into propane and butanes, are sold in eastern Canadian and midwest United States markets.

In June, 1975, inlet gas filters were installed at the Cochrane plant. Contaminants in the inlet gas had caused high pressure drops throughout the plant, sometimes resulting in gas being bypassed around the plant with the consequence of reduced liquids production. The installation of the filters has overcome the contamination problem and has also improved processing capacity and operating conditions in other areas of the plant.

Additions and modifications to the plant in 1975 resulted in capital expenditures of \$447,000.

In September, 1975, the Alberta government issued a news release outlining the plans of The Alberta Gas Ethylene Company Ltd. and others to construct a world-scale petrochemical facility in Alberta using ethane, which is currently in the gas streams leaving the province, as the primary feedstock. These plans indicate that approximately 25% of the ethane requirements will be obtained from the gas stream passing through the Cochrane liquids extraction plant. Your company has been holding discussions with Alberta Gas Ethylene to expand the Cochrane plant to recover ethane from the gas stream. While the news release of the Alberta government suggested implicit approval of the overall scheme, it did state that all regulatory approvals are required. Contractual arrangements satisfactory to all parties as well, are needed.

Proposed Expansion of the Pipeline System

On October 27, 1975, the National Energy Board commenced hearings to consider the applications of Alberta Natural, Canadian Arctic Gas Pipeline Limited and the Foothills Group for certificates of public convenience and necessity to permit the construction of pipeline facilities to transport natural gas from the Mackenzie Delta area and Alaska to Canadian and United States markets.

Your company's application seeks the approval of the National Energy Board to expand its pipeline system in southeastern British Columbia to transport such Alaskan gas as may be contracted by Natural Gas Corporation of California, a wholly owned subsidiary of Pacific Gas and Electric Company, and any other volumes of Arctic gas that may become available for transportation through southeastern British Columbia. Amendments to the application have recently been filed modifying capital cost estimates, gas volumes and delivery commencement dates. The recent filing reflects an initial delivery date of July 1, 1981 for Alaskan gas.

The proposed pipeline expansion would partially 'loop' the existing pipeline which was built in 1960 - 61. An area of diverse mountain topography and environment is traversed by the pipeline system. Your company has initiated extensive environmental studies designed to reduce or avoid interaction of pipeline activities and the various environmental elements. Programs along the right-of-way include intensive wildlife studies, inspection of each stream crossing by fisheries biologists and ground reconnaissance by ornithologists, wildlife biologists and plant ecologists. A Heritage Site impact study was conducted to identify prehistoric and historic sites so that those of archeological value could be excavated in an orderly and systematic manner prior to the pipeline expansion. Economic benefits

resulting from construction of the proposed pipeline will have a positive impact on the business community of southeastern British Columbia.

Personnel

In May, 1975, Mr. D. R. Fenton was appointed Senior Vice-President and elected as a Director of the company, Mr. J. E. Goudie was appointed Vice-President and Treasurer, Mr. G. D. Barnes was appointed Vice-President, Operations, and Mr. G. W. Sinclair was appointed Vice-President, Engineering and Construction.

The continued high degree of efficiency and accomplishments of our employees contributed significantly to the progress of the company during the past year. The Directors extend sincere thanks to all employees for their enthusiastic and loyal efforts.

FOR THE BOARD OF DIRECTORS

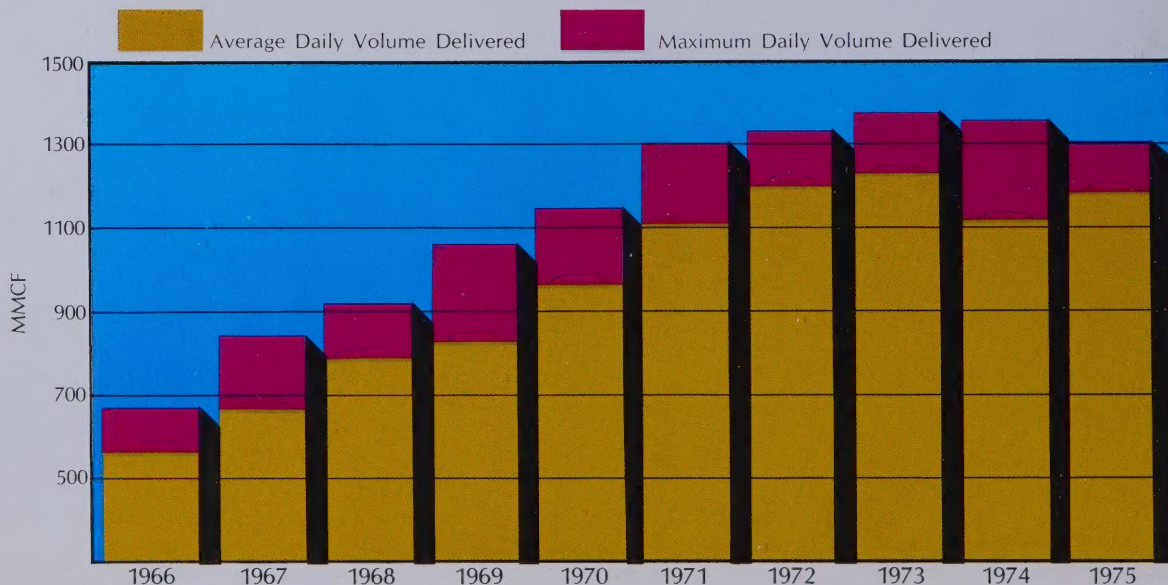
R. MacKinnon

Chairman of the Board

A. G. Goudie

President and Chief Executive Officer

**AVERAGE DAILY THROUGHPUT
VOLUMES 1966 - 1975**





View of the new East Kootenay Meter Station near Yahk, British Columbia.



View of new inlet gas filter installation at the Cochrane liquids extraction plant.

ALBERTA NATURAL GAS COMPANY LTD

Statement of Income

for the year ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
OPERATING REVENUE (Note 1):		
Transportation of gas	\$16,868,000	\$14,037,000
Liquids extraction	24,195,000	16,903,000
Total operating revenue	41,063,000	30,940,000
OPERATING EXPENSES:		
Operating and maintenance	25,995,000	17,158,000
Administrative	856,000	693,000
Depreciation (Note 1)	3,067,000	3,061,000
Property taxes	906,000	821,000
Total operating expenses	30,824,000	21,733,000
OPERATING INCOME (Note 1)	10,239,000	9,207,000
OTHER INCOME	908,000	480,000
INCOME BEFORE INCOME DEDUCTIONS	11,147,000	9,687,000
INCOME DEDUCTIONS:		
Interest on long term debt	2,460,000	2,664,000
Interest on other debt	49,000	41,000
Other	49,000	48,000
Total income deductions	2,558,000	2,753,000
INCOME BEFORE INCOME TAXES	8,589,000	6,934,000
PROVISION FOR INCOME TAXES (Note 1)	4,026,000	3,478,000
NET INCOME FOR THE YEAR	\$ 4,563,000	\$ 3,456,000
EARNINGS PER COMMON SHARE	\$3.83	\$2.90

See accompanying notes.

ALBERTA NATURAL GAS COMPANY LTD

Statement of Reinvested Earnings

for the year ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
BALANCE AT BEGINNING OF THE YEAR	\$ 8,518,000	\$ 6,374,000
NET INCOME FOR THE YEAR	4,563,000	3,456,000
	13,081,000	9,830,000
DIVIDENDS PAID ON COMMON SHARES	1,670,000	1,312,000
BALANCE AT END OF THE YEAR (Note 3)	\$11,411,000	\$ 8,518,000

Statement of Changes in Financial Position

for the year ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
FUNDS PROVIDED:		
Net income	\$ 4,563,000	\$ 3,456,000
Depreciation	3,067,000	3,063,000
Deferred income taxes	2,526,000	3,478,000
Other income deductions	49,000	48,000
Total	\$10,205,000	\$10,045,000
FUNDS APPLIED:		
Net additions to plant, property and equipment	\$ 930,000	\$ 303,000
Reduction of long term debt	2,373,000	2,374,000
Dividends	1,670,000	1,312,000
Gas Arctic-Northwest Project expenditures	1,944,000	1,060,000
Decrease in short term borrowings	—	475,000
Increase in working capital other than short term borrowings	3,288,000	4,521,000
Total	\$10,205,000	\$10,045,000

See accompanying notes.

ALBERTA NATURAL GAS COMPANY LTD

Balance Sheet

December 31, 1975

(with 1974 figures for comparison)

ASSETS	1975	1974
PLANT, PROPERTY AND EQUIPMENT — at cost		
(Note 2)	\$75,105,000	\$74,183,000
Less accumulated depreciation (Note 1)	24,649,000	21,592,000
Net plant, property and equipment	50,456,000	52,591,000
CURRENT ASSETS:		
Cash and interest bearing deposits	7,022,000	3,382,000
Accounts receivable	6,069,000	5,140,000
Materials and supplies — at cost	980,000	908,000
Prepayments and other	104,000	39,000
Total current assets	14,175,000	9,469,000
DEFERRED CHARGES:		
Unamortized organization and capital stock expense	139,000	147,000
Unamortized debt expense	630,000	671,000
Gas Arctic-Northwest Project expenditures (Note 1)	4,819,000	2,875,000
Total deferred charges	5,588,000	3,693,000
APPROVED BY THE BOARD:		
Richard H Peterson Director		
A. Scott Director		
TOTAL	\$70,219,000	\$65,753,000

SHAREHOLDERS' EQUITY AND LIABILITIES	1975	1974
SHAREHOLDERS' EQUITY (Note 3)		
Capital stock:		
Preferred shares:		
Authorized — 2,000,000 shares of \$25 par value each		
Common shares:		
Authorized — 2,500,000 shares of \$10 par value each		
Issued — 1,192,822 shares	\$11,928,000	\$11,928,000
Contributed surplus	2,386,000	2,386,000
Reinvested earnings	11,411,000	8,518,000
Total shareholders' equity	25,725,000	22,832,000
LONG TERM DEBT (Note 4)	30,373,000	32,746,000
DEFERRED INCOME TAXES (Note 1)	8,212,000	5,686,000
CURRENT LIABILITIES:		
Accounts payable	2,243,000	1,831,000
Income taxes payable (Note 1)	1,500,000	—
Interest accrued	452,000	483,000
Sinking fund instalments due within one year	1,612,000	2,075,000
Total current liabilities	5,807,000	4,389,000
CONTRIBUTIONS IN AID OF CONSTRUCTION	102,000	100,000
TOTAL	\$70,219,000	\$65,753,000

See accompanying notes.

Notes to the Financial Statements

December 31, 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(A) Operations:

Alberta Natural owns and operates a 36-inch pipeline from a point near Coleman, Alberta, to Kingsgate, on the British Columbia - Idaho border for the transportation of gas owned by Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Alberta Natural also owns and operates a natural gas liquids extraction plant near Cochrane, Alberta, which removes liquid hydrocarbons from the gas stream of Alberta and Southern.

The gas transportation contract with the gas shippers and the liquids sale agreement with the liquids buyers both provide for the full recovery of all operating expenses, depreciation, property and income taxes, together with a return on the unrecovered investment. In addition, Alberta Natural is entitled to 25% of the cumulative net marketing profits arising from the sale of liquids by the buyers, Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd. Such profits included in Alberta Natural's operating revenue for 1975 are based upon actual results to October 31, 1975 and estimated results for the months of November and December, 1975.

(B) Depreciation:

Gas transmission plant is being amortized at an annual rate equal to the proportion that the annual volume of throughput authorized for export by the shippers bears to the total volume remaining under the licences granted by the National Energy Board.

Depreciation on extraction plant is calculated at an annual rate of 2½% on a straight-line basis.

(C) Gas Arctic - Northwest Project Expenditures:

Alberta Natural is a member of the Gas Arctic-Northwest Project Study Group, which has completed the development of detailed plans for construction of a large diameter gas pipeline from Alaska and the Mackenzie Delta area to major Canadian and United States market areas. Applications for approval of the pipeline system have been made to the appropriate Canadian and United States regulatory authorities and public hearings commenced in 1975. The cost of Alberta Natural's participation in this project, including an allowance for funds advanced amounted to \$4,819,000 to December 31, 1975.

Alberta Natural concluded an agreement with its related companies Pacific Gas Transmission Company and Pacific Gas and Electric Company on March 10, 1975 with respect to the obligations of Alberta Natural to make certain payments and its rights to acquire shares or other securities connected with this project. The agreement provides that Alberta Natural will continue to make contributions to the project on behalf of itself and these companies, but in the event that such contributions become irrecoverable, or an opportunity to acquire ownership interests in the project is made available to Alberta Natural, the parties will share such contributions and benefits. In these events, Alberta Natural's share will be 20% and the remainder will be shared between Pacific Gas Transmission Company and Pacific Gas and Electric Company.

(D) Income Taxes:

It is Alberta Natural's practice to claim for taxation purposes, capital cost allowances and other deductions at maximum rates permitted in accordance with the Income Tax Act.

Since the gas transportation contract and the liquids sale agreement provide for recovery of income taxes, as explained in (A) above, Alberta Natural makes provision in its accounts for such income taxes included in billings to its customers, as well as providing for income taxes on marketing and other profits included in revenues, to the extent that they are not recoverable. Since January 1, 1973 billings to the gas shippers have included an income tax component. Income taxes have not been included in billings to the liquids buyers.

While it has no effect on the net income of Alberta Natural, accumulated taxes deferred to December 31, 1975 amount to approximately \$21.7 million of which a provision of \$8.2 million has been recorded in the accounts and approximately \$1.5 million is payable for the year ended December 31, 1975.

2. PLANT, PROPERTY AND EQUIPMENT:

	1975	1974
Gas transmission plant	\$57,130,000	\$56,656,000
Less: accumulated depreciation	22,502,000	19,885,000
Net gas transmission plant	34,628,000	36,771,000
Natural gas liquids extraction plant	17,975,000	17,527,000
Less: accumulated depreciation	2,147,000	1,707,000
Net natural gas liquids extraction plant	15,828,000	15,820,000
Net plant, property and equipment	\$50,456,000	\$52,591,000

Included in the amounts shown is plant under construction of \$146,000 at December 31, 1975 (\$172,000 at December 31, 1974).

3. SHAREHOLDERS' EQUITY:

Restrictions on the payment of cash dividends under certain circumstances are contained in the Deed of Mortgage and Trust securing Alberta Natural's bonds. At December 31, 1975 \$3,082,000 otherwise available for dividends was restricted in this manner. Payment of dividends in 1976 will be subject to the restrictions imposed by the anti-inflation controls on dividends.

4. LONG TERM DEBT:

First Mortgage Pipe Line Bonds:

	Year Issued	Maturity	1975	1974
5 3/4% Series A	1961	1986	\$11,413,000	\$12,500,000
8 3/4% Series B				
(\$8,000,000 U.S.)	1969/1970	1991	8,583,000	9,120,000
8 1/2% Series C	1971	1992	12,000,000	13,250,000
			31,996,000	34,870,000
Less sinking fund instalments due within one year			1,623,000	2,124,000
			\$30,373,000	\$32,746,000

The Series A Bonds are payable in United States dollars. As provided by the gas transportation contract, Alberta Natural is required to accept from the gas shippers in substitution for an equal number of Canadian dollars the number of United States dollars required to make the annual principal and interest payments on the bonds. Accordingly, the principal amount of the Series A Bonds and associated interest expense are recorded in Alberta Natural's accounts on the basis of the two currencies being equal in value.

The Series B Bonds are payable in United States dollars. The principal amount of the Series B Bonds is recorded in Alberta Natural's accounts at the amount of Canadian funds received on conversion of United States funds received on issue.

Sinking fund requirements amount to approximately \$2,337,000 (\$1,587,000 (U.S.) and \$750,000 (Cdn.)) in each of the years 1977 to 1980. The 1976 sinking fund requirement for the Series C Bonds has been provided for by the purchase and cancellation of \$750,000 principal amount of such bonds and consequently the liability for sinking fund instalments due within one year has been reduced by this amount.

Substantially all of the properties of Alberta Natural are pledged under the Deed of Mortgage and Trust securing the bonds.

5. DIRECTORS AND OFFICERS:

At December 31, 1975 Alberta Natural had nine directors and eight officers. Three of the officers were also directors. Directors' fees of \$2,500 were paid in 1975 (1974 - \$1,900) which represented the only remuneration received from Alberta Natural by the directors and officers. In respect of services rendered to it by some of its officers who are also officers of related companies, Alberta Natural pays a service charge to the related company.

Auditors' Report

To the Shareholders of
Alberta Natural Gas Company Ltd:

We have examined the balance sheet of Alberta Natural Gas Company Ltd as at December 31, 1975 and the statements of reinvested earnings, income and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 4, 1976.

DELOITTE, HASKINS & SELLS
Chartered Accountants.

ALBERTA NATURAL GAS COMPANY LTD

Five Year Review Comparative Highlights

	1975	1974	1973	1972	1971
Operating revenue (\$000's)	41,063	30,940	23,853	17,291	14,170
Net income (\$000's)	4,563	3,456	2,144	1,977	1,770
Average number of common shares outstanding	1,192,822	1,192,822	1,192,822	1,192,822	1,192,822
Earnings per average outstanding common share (\$)	3.83	2.90	1.80	1.66	1.48
Annual dividend rate per common share (\$)	1.50(1)	1.10	1.10	1.00	1.00
Dividend payout ratio (%)	36.6	38.0	58.4	60.3	67.4
Common equity					
— total (\$000's)	25,725	22,832	20,688	19,796	19,012
— \$ per share	21.57	19.14	17.34	16.60	15.94
Total gas plant at year end (\$000's)					
— original cost	75,105	74,183	73,911	73,544	72,999
— depreciated cost	50,456	52,591	55,342	58,012	60,439
Construction expenditures (\$000's)	946	314	357	564	4,673
Average daily volume of gas delivered					
— thousands of cubic feet (MCF)	1,198,000	1,128,000	1,219,000	1,206,000	1,124,000
Maximum day volume of gas delivered — thousands of cubic feet (MCF)	1,340,000	1,369,000	1,372,000	1,332,000	1,303,000
Compressor horsepower	88,600	88,600	88,600	88,600	88,600
Average daily production of natural gas liquids (Bbls.)	13,900	13,300	15,500	13,100	9,100

Note: (1) Dividend rate increased
June, 1975.

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